



Ex Parte Memorandum

Marlene H. Dortch, Secretary
Federal Communications Commission
445 – 12th Street, S.W. Room TW-A325
Washington, DC 20554

Re: In the Matter of AT&T Request of Petition for Preemption
of South Carolina Statutes that established an Interim LEC Fund, CC
Docket No. 96-45, DA 03-2779

Dear Ms. Dortch:

On July 28, 2004, Messrs. H Keith Oliver, on Behalf of Home Telephone Company, Inc., and L. Ben Spearman, on behalf of PBT Telecom, made an *ex parte* presentation concerning the above-referenced proceedings to Mr. Daniel Gonzalez, Senior Legal Advisor to Commissioner Martin. In addition to the above-referenced matter, Messrs. Oliver and Spearman reviewed a previous *ex parte* concerning the Matter of Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92 that was presented on December 11, 2003. A copy of both presentations is enclosed.

Should there be any questions concerning this matter, kindly contact the undersigned.

Very truly yours,

A handwritten signature in cursive script that reads "Denny V. Thompson". The signature is written in dark ink and is positioned above a horizontal line.

Denny V. Thompson

Enclosures (2)

DVT:dvt

SOUTH CAROLINA INTERIM LEC FUND

7/29/2004

Ben Spearman, PBT and
Keith Oliver, Home Tel

SC INTERIM LEC FUND

AT&T Corp. Petition for
Preemption, Pursuant to Section
253 of the Communications Act
and Common Law Principles, of
South Carolina Statutes that
Established an Interim LEC Fund

7/29/2004

Ben Spearman, PBT and
Keith Oliver, Home Tel

Background

- Created by SC General Assembly pursuant to S.C. Code Ann. § 58-9-280(L)-(M)
- ILF allows ILECs to lower access rates and to raise other rates to offset access revenue reductions
- Rate rebalancing plan
- Intended to be stand alone plan
- ILF is funded by all entities receiving an access or interconnection rate reduction

Beneficiaries

- Rate rebalancing program that affects rates for intrastate services only
- Contributors to ILF = beneficiaries of access rate reductions
- Contributions by benefiting carriers are reduced by rate adjustments that LECs make (i.e., carriers do not pay entire amount of access rate reductions into fund)

ILF does not = SCUSF

- The SC ILF is not a USF
- SC USF is separate and apart from the ILF
- Two funds sized differently
 - SCUSF is based on cost of providing local service
 - ILF is based on revenue neutral reductions in intrastate switched access charges offset by rebalancing of local rates
- AT&T actively participated in ILF and SCUSF proceedings

Summary

- Rate rebalancing plan for intrastate services, only
- ILF been in operation for 7+ years
- Brought intrastate access charges to reasonable levels
- Carriers receiving reductions have enjoyed the benefits
- States should be **encouraged** to take such creative measures

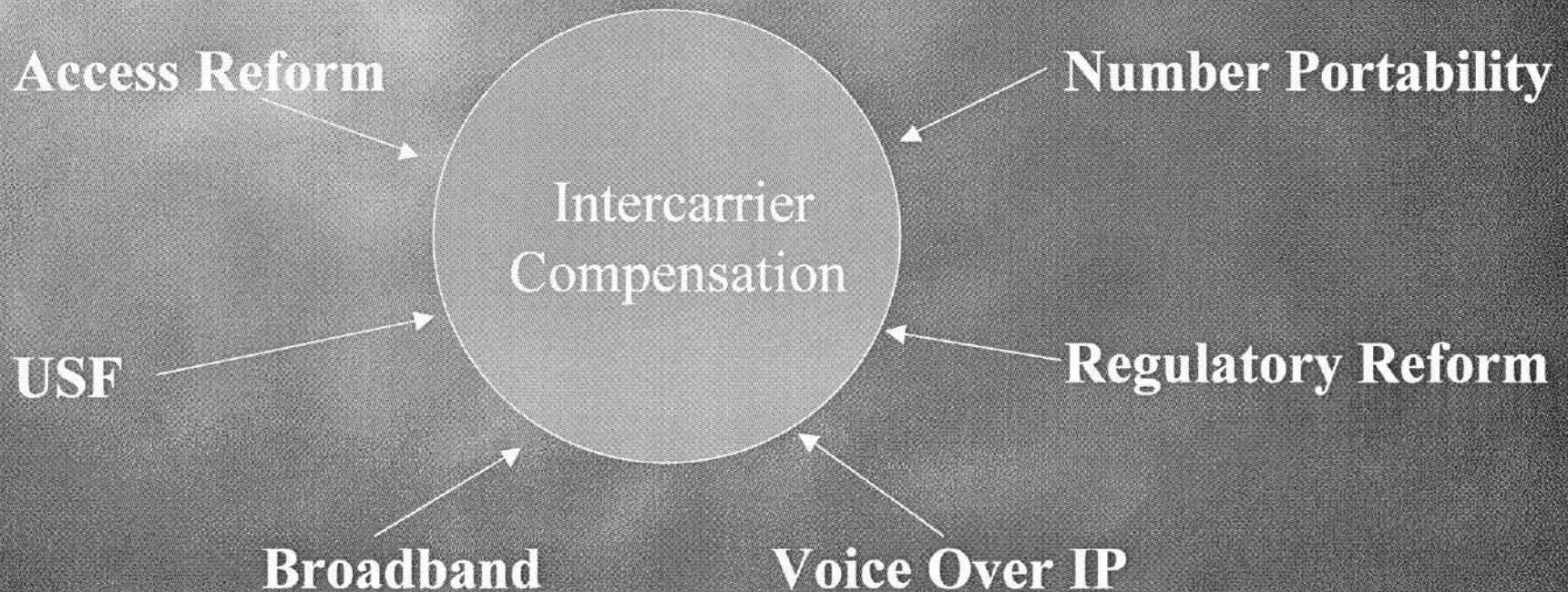
Intercarrier Compensation – A Rural LEC's Perspective

H. Keith Oliver, Vice President
Home Telephone Company, Inc.
Moncks Corner, SC

Ben Spearman, Chief Regulatory Officer
PBT
Gilbert, South Carolina

Intercarrier Compensation – A Rural LEC's Perspective

Many major issues converge into Intercarrier Compensation Debate

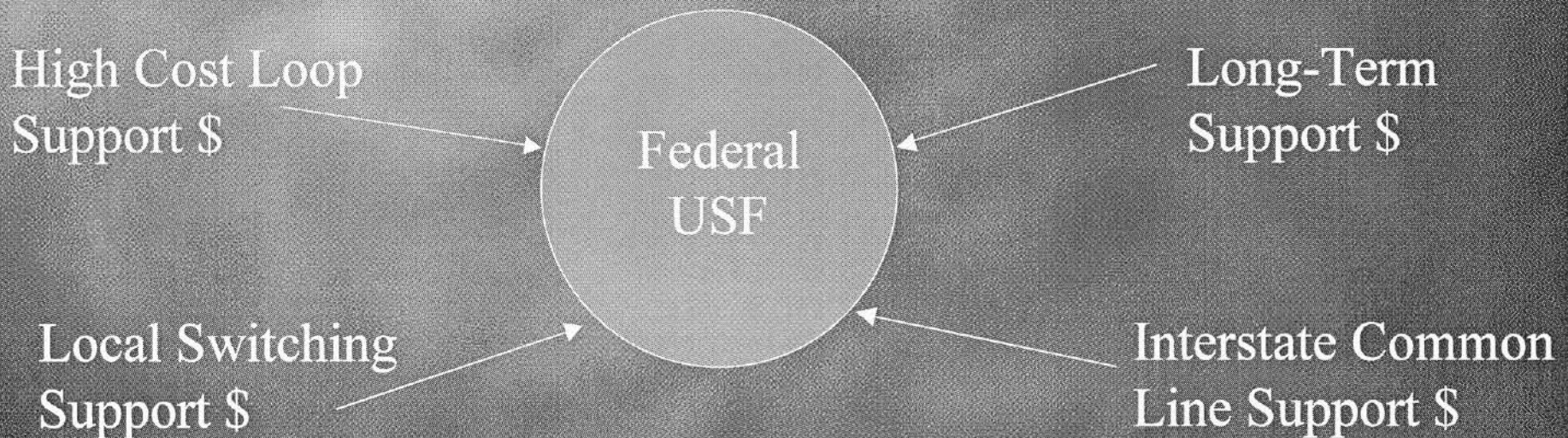


Intercarrier Compensation – A Rural LEC's Perspective

- Resolution of all issues in a comprehensive manner is required in order to remove regulatory uncertainty before the telecom industry can regain its economical vitality

Intercarrier Compensation – A Rural LEC's Perspective

USF proceedings have shifted rural LEC cost recovery out of access into USF



Intercarrier Compensation – A Rural LEC's Perspective

- America's network is a series of individual interconnected networks
- All connected to the networks have the ability to benefit equally
- BUT: Cost varies between networks

Intercarrier Compensation – A Rural LEC's Perspective

- Intercarrier Compensation is the way that subscribers residing in low cost network areas pay for their "fair share" for the use of high cost networks

Intercarrier Compensation – A Rural LEC's Perspective

- └ Pure Bill and Keep does not provide for cost sharing between high and low cost networks.
 - Rural areas would be severely disadvantaged
 - Rural customers would be left to support the entire cost of the rural network
 - Low cost network customers would use rural networks for **FREE**

Intercarrier Compensation – A Rural LEC's Perspective

An intercarrier compensation plan must:

1. Eliminate arbitrage (between services and jurisdiction)
2. Recognize the emergence of the packet switched network
3. Allow for nationwide transportation mechanism
4. Allow for continued pooling of rural cost
5. Insure that all benefiting from the use of the rural network pay to use it

Intercarrier Compensation – A Rural LEC's Perspective

- The packet-switched network requires a per connection or a capacity based interconnection fee.
- Minutes of use (access) fees will not be sustainable in the packet switched environment

Intercarrier Compensation – A Rural LEC's Perspective

- What is needed is a comprehensive solution that deals with USF, intercarrier compensation and related issues at the same time
- A comprehensive solution is needed to keep *America* connected

Intercarrier Compensation – A Rural LEC's Perspective

Details of a Comprehensive Connect America Plan

1. Identify net intrastate intercarrier compensation revenue required
2. Combine intrastate revenue requirement with interstate revenue requirement (switched access plus funds transferred to USF)
3. Develop a capacity-based fee to be charged for entry into the public switched network (i.e., port charge)

Intercarrier Compensation – A Rural LEC's Perspective

4. Price cap LEC increase SLCs to offset any net revenue shortfall resulting from the elimination of access fees and implementing port charges
5. Rural LECs mirror any actual SLC increases implemented by price cap LECs (not current capped amounts)
6. Rural LECs pool costs and revenues resulting from the implementation of the plan

Intercarrier Compensation – A Rural LEC's Perspective

7. Pooled revenue requirements not recovered from the SLC increase and the creation of a port fee would be recovered based on a per-connection or per-assigned number basis fee
8. Pooling option would be available to all entities meeting public interest test as a rural ETC¹, based on the adoption of common accounting and pooling rules

¹Any company seeking designation as a rural ETC would be required to adhere to all the rules that a rural LEC would follow such as Part 32 (common accounting) and various pooling guidelines.

Intercarrier Compensation – A Rural LEC's Perspective

9. Remaining federal universal service programs (after removal of LEC costs) recovered on expanded revenue base (all broadband and ISP services)
10. LECs receive regulatory pricing flexibility to bundle other services with basic local service

Intercarrier Compensation – A Rural LEC's Perspective

Benefits of Connect America Plan

1. Allows for all subscribers connected to the network to pay a low flat fee for use of the rural network
2. Allows public switched network to be priced similar to a packet switched network
3. Allows for continuation of existing special access and dedicated line pricing
4. Eliminates arbitrage
5. Allows for seamless number portability
6. Resolves existing USF issues
7. Resolves regulatory difference with broadband and VOIP service

A SINGLE SOLUTION FOR MANY COMPLICATED PROBLEMS